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SUBJECT: AF: UPDATE ON USG ENERGY PROJECTS

11. (SBU) The following cable provides an update on USG energy sector projects in Afghanistan.

12. (SBU) KABUL 100 MW GENERATOR SETS (GENSETS) - Work on the site continues apace and the contractor appears to be on schedule. Arrangements for the transportation of the generator sets themselves to Afghanistan and subsequently to the site are complete.

13. (SBU) North East Power System (NEPS) - Task orders to proceed with the Reactive Power Compensation and NEPS Control Center projects have been signed and are moving forward.

14. (SBU) NEPS - TURKMEN COMPONENT - USAID will issue tender documents for the construction of a substation at Andkhoy, near the Turkmen border, once there is an agreed-upon good-faith commitment by the Turkmen government to construct their portion of the NEPS line - approximately 400 km within Turkmenistan. We believe this commitment will come in the form of a Memorandum of Understanding (MOU) or Power Purchase Agreement (PPA) between the Afghan and Turkmen governments some time before August 15, 2008.

15. (SBU) NEPS - UZBEK COMPONENT - Negotiations to set a final construction price continue. Despite many delays, an Uzbek two-man technical team arrived in Naibabad, Afghanistan near the border with Uzbekistan on June 9. They, their Afghan counterparts, and donor-funded advisors are reviewing the status (and technical specifications) of the NEPS line already constructed between the Uzbek border and Kabul. This is being done to allay Uzbek concerns about Afghanistan's ability to properly absorb and use the 150 MW of power to be imported from the Uzbeks. This has been a prerequisite to Uzbekistan concluding both a construction contract and PPA with Afghanistan for the construction of the 43 km line within Uzbekistan to facilitate power export to Afghanistan.

16. (SBU) Although Embassy Kabul has received some reports indicating the Uzbek power utility, Uzbekenergo, claims to have already begun work on the construction of the power line, we have been unable to

confirm. However, Mr. Ghulam Rabbani, Energy Advisor to the Minister of Energy and Water, and former General Director of the Afghan power utility DABM, claims this could be possible because the new Uzbek line follows the route of an older, defunct line. According to Rabbani, much of the preparation (like clearing and leveling) was done previously, cutting the time needed for construction of the new line. In fact the most difficult towers to construct for the line, on either side of the Panj River between Uzbekistan and Afghanistan, are already in place. While the Uzbeks claim they will need six months to complete the line, Rabbani believes they are hedging their bets and once begun in earnest, the line could be completed in as little as three to four months. Without a signed construction contract however, it is difficult to predict if Uzbek power will be available for the 2008-2009 winter heating season in Kabul. We continue to monitor the progress of these negotiations.

¶6. (U) NEPS - TAJIKISTAN COMPONENT - Following successful meetings in Dushanbe in April, negotiations on a PPA with the Tajiks appear almost complete. Minister of Energy and Water Ismail Khan is expected to travel to Dushanbe June 20 for the official signing ceremony. This will allow the Asian Development Bank (ADB) to proceed with its internal processes to fund the construction of the Afghan NEPS line to Tajikistan, which will run from Pul-e-Khumri north through the cities of Baghlan and Kunduz to the Tajik border.

¶7. (SBU) The proposed PPA between the Tajiks and Afghans provides that by 2010 Tajikistan will sell at least 400 million KWH per year to Afghanistan during the five-month peak hydro-power season from May to September. The agreement is to take effect on May 1, 2010 for a period of 20 years. The price per megawatt hour will be 0.035

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USD (for firm energy), with a two percent yearly increase. New negotiations are expected in 2013 should the Tajiks build additional facilities and the Afghans wish to purchase additional energy.

¶8. (U) SHEBERGHAN GAS FIELDS TESTING - USAID expects to obtain an indemnification letter from the Ministry of Mines for its subcontractor by June 17. With this letter in hand we expect a final contract signing which will allow mobilization into the field in August, with initial well test results expected by mid September.

¶9. (U) South East Power System - SEPS - As always, security problems persist at the site, but work continues. In addition to the work on the Kajaki Dam's turbines, USAID is proceeding with an RFP for the assessment and repair of the 110 kv power line from the dam's power house to Durai Junction (south West) and to Mousa Qala (West). This is expected to be completed by the end of July. A recent three-dimensional aerial survey of the 110 kv line route will prove a useful tool in its rehabilitation as well as in the construction of future 220 kv line.

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